



More States Considering Tax Breaks to Woo Jobs

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Rising unemployment has touched off a race among state governors to woo companies with tax breaks and financial incentives, even as budget shortfalls force cuts in education, health care and other services.

Governors from both parties and from states large and small are counting on the federal stimulus package -- passed by the House last week and headed for the Senate -- to perk up their economies and create tens of thousands of new construction jobs, but they're not convinced it will be enough. So they've laid out urgent calls to chase private-sector jobs with public money.

Under Gov. Jon Corzine, a Democrat, New Jersey has promised to send small businesses a \$3,000 check for every new hire. Minnesota Gov. Tim Pawlenty, a Republican, calls for an expansive package of business tax cuts, including tax-free zones for companies that create "green jobs."

Other states are considering establishing multimillion-dollar loan funds for entrepreneurs, phasing out the corporate income tax, and pledging financial backing to banks willing to extend lines of credit to small businesses.

As he prepared his budget last week, Missouri Gov. Jay Nixon, a Democrat, could hear the chants from a rally of child-welfare advocates outside his office window. Mr. Nixon said he expected anger over his plan to slash the state work force by 1,300 and eliminate or trim dozens of programs. Among his proposals: a \$14.6 million cut for university extension courses, a \$3.4 million cut for rural health care, and a \$250,000 cut for early-childhood literacy programs.

Mr. Nixon says he needs those savings to balance the budget while still expanding -- by about \$20 million -- incentive funds that underwrite corporate job creation. Mr. Nixon's staff cites a deal announced last July with Orgill Inc., a national hardware wholesaler, which received more than \$7 million in state aid to build a distribution center in rural Sikeston with a goal of creating 350 jobs.

That amounts to a subsidy of \$20,000 per job, but officials expect the state treasury to recoup that many times over in taxes paid by the newly employed.

"Everything stems from jobs," Mr. Nixon said. "Now is not the time to back off the field of economic development."

Mounting Layoffs

Recent job-incentive deals have come at a time of mounting corporate layoffs. Texas, for instance, recently put up \$10 million to bring a new Caterpillar Inc. assembly plant to the small town of Seguin. Days after breaking ground for the plant, which is expected to employ 1,400, Caterpillar announced 20,000 job cuts world-wide. In Kansas, Cessna Aircraft Co. successfully lobbied last spring for \$33 million in incentives to build a new business jet in Wichita. Within months, Cessna began to announce a series of layoffs that by now total 4,000 in Wichita alone.

State Sen. Les Donovan, a Republican who represents Wichita, said he's disappointed at the layoffs but remains committed to incentive deals. "It would be a wonderful world [if we could attract business] by talking about our gorgeous fields of wheat and good-looking sunflowers," Mr. Donovan said. "But we live in a competitive world...and we need to send a very strong message that Kansas is open for business. Come here, and we'll take care of you."

Both Caterpillar and Cessna say they are committed to the new plants as a long-term growth strategy.

Texas Gov. Rick Perry, a Republican, hailed the Caterpillar deal as he called for broader initiatives -- cutting business taxes and replenishing incentive funds to promote job creation with \$520 million over the next two years. Texas doesn't levy an income tax and prides itself on fostering a business-friendly environment. The state is in better financial shape than many others, and Mr. Perry isn't asking for the same deep cuts in services as some other governors.

To minimize risk in incentive deals, many states -- including Texas -- write in claw-back provisions that require companies to return funds if they fail to create the promised number of jobs.

Still, the strategy has drawn criticism from both left and right.

South Carolina Gov. Mark Sanford, a Republican, condemns incentives as unfair meddling in the free market because they often benefit new arrivals to a state at the expense of long-established firms. He and some other conservatives prefer across-the-board cuts in businesses taxes and regulation.

Liberals, meanwhile, maintain that government's first priority in a recession must be to protect the vulnerable. Rolling out the red carpet for business may bring jobs to the state - - and tax-paying workers. But Colorado state Rep. John Pommer, a Democrat, says those taxes don't always cover the expense of providing those workers quality schools, roads, parks and police -- with the result that already-strained services are stretched even thinner.

"It seems like we're always bowing to the god of economic development without stopping to think that he never answers our prayers," Mr. Pommer said.

Colorado Gov. Bill Ritter, a Democrat, says he believes good schools are "the most effective vehicle for bringing jobs into the state" because they signal a well-educated work force.

Still, Mr. Ritter proposes cutting more than \$225 million from public education while more than doubling spending on business tax credits and incentive funds to about \$18 million.

The governor notes that even at the elevated rate, his incentive spending is a tiny share of the overall budget. But he says it's vital to augment those funds in an era of "heightened competition" among the states for every job. "When the resurgence comes, we want to be poised to capture that," Mr. Ritter said. "It's going to give us a competitive edge."

Jobs Trade-Off

Mr. Ritter's most recent corporate courtship ended with Charles Schwab Corp. agreeing to bring 500 jobs to suburban Douglas County in exchange for up to \$1 million in state incentives.

The deal left child-welfare advocate Megan Ferland with mixed feelings. Stable jobs are essential for stable families, she said. But she worries that those families will falter if the state does not adequately fund education, health and child care. The Douglas County school district is grappling with a budget shortfall and considering raising class size and cutting teacher training, sports and music programs.

"Bringing in jobs absolutely makes sense," but if education and child-care funds are sacrificed in the process, "that's like putting families in a neighborhood that doesn't have a road from the house to the job," said Ms. Ferland, president of the nonprofit Colorado Children's Campaign advocacy group.

Corporate incentives have been around since at least the 1960s. For many years, wooing jobs with cash was viewed as a "poor state strategy," deployed mostly by states in the deep South that couldn't offer corporations well-developed infrastructure or a well-educated work force.

In the 1980s, more states began to test the waters. The 1990s saw a pell-mell rush by states to one-up one another, offering ever more lavish deals to impress a new breed of "site selection consultants" who shopped proposed assembly plants and corporate headquarters from state to state.

Measuring Impact

Over the years, many analysts have tried to measure benefits of incentive programs -- with contradictory results. Nearly every state can point to impressive corporate investments brought in with the help of incentives. But it's tough to determine how much a given company's business strategy is shaped by the goody bags states dangle.

"It's virtually impossible to control for all the other variables," said Robert Ward, deputy director of the Nelson A. Rockefeller Institute of Government, an independent research center affiliated with the State University of New York.

A few governors are pulling back from incentives in the face of gaping budget shortfalls. After sealing a \$1.2 billion deal to bring Albany a computer-chip plant, New York Gov. David Paterson, a Democrat, has called for cuts in the Empire Zone incentive program.

Mr. Paterson will now require firms that get tax breaks under this program to certify that they are generating at least \$20 in investment and wages for every \$1 in state incentives. The governor's office estimates that will save \$270 million this fiscal year.

But in many states, "the political imperative is to be seen to be doing something, even if it's not effective in the long term," said Brent Lane, director of the Center for Competitive Economies at the University of North Carolina. "I have a lot of sympathy for these politicians...They're desperate to do something."

Taking Care of Business

Even as they grapple with budget shortfalls, governors mount a full-court press to attract new businesses with a variety of tax breaks and other financial incentives. Here are three examples:

	COLORADO	MISSOURI	MINNESOTA
Proposed budget cuts	Eliminate 540 state jobs Cut \$126 million from K-12 education and \$100 million from higher education Close two prisons	Eliminate 1,329 state jobs Cut \$85 million from programs such as adult education and health care for rural areas	Freeze state government wages Cut higher education funds by \$254 million, or 8.2%
Economic development proposals	Expand by \$1.4 million an incentive fund for clean energy jobs Create a \$5 million fund for banks that open credit lines for small businesses Cut income taxes for employers who create at least 20 jobs.	Increase funds for customized job training for businesses by 38% Expand a \$60 million corporate incentive fund by up to \$20 million Subsidize ethanol and biodiesel with \$53 million in state funds	Create tax-free zones for renewable energy 'green jobs' Cut business taxes in half, to 4.8%, over the next six years Exempt small businesses from capital gains taxes

Source:
Governors' offices

